

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Durand	County Shiawassee
Fiscal Year End June 30, 2007	Opinion Date November 27, 2007	Date Audit Report Submitted to State December 21, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

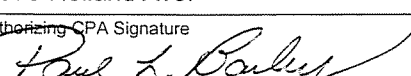
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple		Telephone Number 810-984-3829	
Street Address 1979 Holland Ave.		City Port Huron	State MI
Zip 48060			
Authorizing CPA Signature 	Printed Name Paul L. Bailey	License Number 1101014088	

CITY OF DURAND, MICHIGAN

ANNUAL FINANCIAL STATEMENTS
with Supplementary Information

FOR THE YEAR ENDED
JUNE 30, 2007

CITY OF DURAND, MICHIGAN

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CITY OF DURAND, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Durand, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the remaining fund information of the City of Durand, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Durand's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Durand, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 27, 2007, on our consideration of the City of Durand's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7, and budgetary comparisons on pages 40 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Durand's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Stewart, Beauvais & Whipple".

Certified Public Accountants

November 27, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS

The City of Durand's 2007 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds and component unit information. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the City's net assets and how they have changed. Net assets, defined as the difference between the City's assets and liabilities, are one way to measure the City's financial health or position.

The government-wide financial statements of the City are divided into two categories:

Governmental activities – most of the City's basic services are included here, such as the police, fire, public works, parks and recreation, general administration and debt retirement. Property taxes, state-shared revenues, charges for services, and most of the funding.

Business-type activities – the City charges fees to customers to help it cover the costs of certain services it provides. The City's water, sewer and refuse operations are treated as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds; not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

Governmental funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The City currently has 15 governmental funds.

Proprietary Funds – Proprietary funds use the accrual basis of accounting, which is the same basis used by the private businesses. The City maintains two different types of proprietary funds.

Enterprise Funds – are used to report services for which the City charges customers a fee for those services. The City has three enterprise funds, the Water, Sewer and Refuse Funds.

Internal Service Funds – reports activities that provide services and supplies to other City programs. The City utilizes a Motor Pool internal service fund.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's operations. The City has two fiduciary funds, the Employee Benefits Trust Fund and the Tax Agency Fund.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The City has combined total net assets of 11.3 million. This is an increase of \$1,171,014 over 2006. Government-type activities comprise \$4.0 million, and business-type activities make up \$7.3 million of the total net assets. In a condensed format, the table below shows net asset as of the June 30, 2007 and 2006.

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
In Thousands				
Assets				
Current assets	\$ 1,223	\$ 1,166	\$ 951	\$ 955
Restricted assets	28	25	334	179
Capital assets	<u>5,913</u>	<u>5,303</u>	<u>7,774</u>	<u>7,447</u>
Total assets	<u>\$ 7,164</u>	<u>\$ 6,494</u>	<u>\$ 9,059</u>	<u>\$ 8,581</u>
Liabilities				
Current liabilities	68	162	57	78
Long-term liabilities	<u>3,046</u>	<u>3,233</u>	<u>1,727</u>	<u>1,500</u>
Total liabilities	<u>\$ 3,114</u>	<u>\$ 3,395</u>	<u>\$ 1,784</u>	<u>\$ 1,578</u>
Net Assets				
Invested in capital assets –				
Net of related debt	2,871	2,073	6,054	5,952
Restricted	626	565	349	194
Unrestricted	<u>553</u>	<u>461</u>	<u>872</u>	<u>857</u>
Total net assets	<u>\$ 4,050</u>	<u>\$ 3,099</u>	<u>\$ 7,275</u>	<u>\$ 7,003</u>

The City's governmental activities experienced a net change in assets of \$925,496. The business-type activities experienced an increase in net assets of \$245,518, which is approximately 18% of annual expenses.

The following table shows the changes in net assets for 2007 and 2006:

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
In Thousands				
Revenue				
Program Revenue				
Charges for services	\$ 87	\$ 101	\$ 1,572	\$ 1,599
Operating grants and contributions	252	256	-	-
Capital grants and contributions	675	14	-	-
General Revenue				
Property taxes	1,401	1,352	-	-
State-shared revenue	510	523	-	-
Unrestricted investment earnings	62	44	38	21
Franchise fees	29	29	-	-
Total Revenue	<u>\$ 3,016</u>	<u>\$ 2,319</u>	<u>\$ 1,610</u>	<u>\$ 1,620</u>
Program Expenses				
General government	442	478	-	-
Public safety	799	827	-	-
Public works	591	575	-	-
Recreation and culture	124	164	-	-
Interest on long-term debt	135	101	-	-
Water	-	-	535	536
Sewer	-	-	640	684
Refuse	-	-	189	188
Loss on disposal	-	-	-	48
Total Program Expenses	<u>2,091</u>	<u>2,145</u>	<u>1,364</u>	<u>1,456</u>
Changes in Net Assets	<u>\$ 925</u>	<u>\$ 154</u>	<u>\$ 246</u>	<u>\$ 164</u>

Governmental Activities

Revenues for governmental activities totaled \$3.0 million in 2007. Of this amount \$1.4 million or 46% was received from taxes followed by state Shared Revenue of 0.5 million or 17%.

Business-type Activities

The City has three business-type activities, water, wastewater and refuse operations. The City operates its own water and sewage treatment facility and contracts for refuse collections. The water, wastewater and refuse services funds had a net increase in net assets of \$30,261, \$204,749 and \$10,508, respectively.

FINANCIAL ANALYSIS OF MAJOR FUNDS

The general fund ended 2007 with a fund balance of \$472,615, of which \$66,649 was reserved for specific purposes, \$100,000 designated for retiree health insurance, with the remaining amount of \$305,966 unreserved and undesignated. This is a decrease of \$14,406 from the prior year.

The City's other major funds, the Major Street, Local Street and Main Street Project Funds ended 2007 with a fund balance of \$96,235, \$94,711 and \$1,189, respectively. This is an increase of \$9,111 for the Major Street Fund, an increase of \$52,039 for the Local Street Fund and an increase of 1,189 for Main Street Project Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City administration and City Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. There were no significant budget amendments during the year for any of the City's Major Funds.

Also, the only significant difference between actual and budget was in the Major Street Fund, which budgeted State revenues of \$987,700 but actual was \$170,848 and budget maintenance expenditures of \$959,300 and actual was \$89,654. The reason for the variance was the street project was recorded in a separate fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City had \$13.7 million dollars invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2007. The investment in capital assets includes, land, building and building improvements, machinery and equipment, vehicles, and water and sewer systems. Infrastructure (e.g. roads, drains, etc.) purchased on or after July 1, 2003 is also included. During the year the City added approximately \$1,480,379 of capital assets before taking into account depreciation. Depreciation for the year was \$548,125. The following table shows the capital assets at June 30, 2007 and 2006:

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
Land	\$ 1,597,052	\$ 1,597,052	\$ 151,400	\$ 151,400
Building and improvements	3,290,837	3,290,837	3,784,515	3,784,515
Machinery and equipment	1,058,436	1,064,087	68,154	68,154
Vehicles	995,727	933,934	-	-
Infrastructure	604,463	604,463	-	-
Water and sewer systems	-	-	8,720,732	8,720,732
Construction in progress	<u>858,790</u>	<u>74,569</u>	<u>587,816</u>	<u>13,426</u>
	8,405,305	7,564,942	13,312,617	12,738,227
Accumulated depreciation	(<u>2,492,563</u>)	(<u>2,261,514</u>)	(<u>5,539,004</u>)	(<u>5,291,121</u>)
	<u>\$ 5,912,742</u>	<u>\$ 5,303,428</u>	<u>\$ 7,773,613</u>	<u>\$ 7,447,106</u>

During the year, the City added \$905,989 of assets to the governmental activities, which included \$784,221 in improvements to Main Street and \$121,768 in vehicles and equipments. The business-type activities added \$574,390 mainly as improvements to the wastewater and water supply systems.

Long-term Debt

At June 30, 2007, the City had \$4,809,316 in long-term debt compared to \$4,776,295 at June 30, 2006.

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
General Obligation Bonds	\$ 2,425,000	\$ 2,550,000	\$ -	\$ -
Capital Improvement Bonds	-	-	645,000	350,000
Revenue Bonds	-	-	1,075,000	1,145,000
Installment Loans	617,163	680,133	-	-
Compensated Absences	3,883	3,028	6,870	5,268
	<u>\$ 3,046,046</u>	<u>\$ 3,233,161</u>	<u>\$ 1,726,870</u>	<u>\$ 1,500,268</u>

In addition the City funds compensated absences earned in governmental funds in the Employee Benefit Fund, the long-term liability amounted to \$36,400.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The Michigan economy continues to struggle throughout fiscal year 2006- 07. This economic downturn continues to have an adverse impact on the City of Durand. This impact is felt financially and, in turn, in our ability to reinvest in the community and provide services. The freeze in state revenue sharing has now been in effect for approximately six years. The City continues to operate on the same level of state shared revenue since 2002. In actuality, the City received more revenue from the state in 1999 than we did in 2006-07.

While experiencing a small growth in revenue from local taxes, most expenditures continued to grow at the rate of inflation or higher. The major exception has been the rising cost of healthcare insurance. During the fiscal year 2006-07, the City's healthcare insurance premiums increased 26%. This resulted in an \$80,000 increase in the City's cost for this employee benefit that will mostly occur in the 2007-08 budget year. The City administration is currently in negotiations with employee unions and one of the most important issues is healthcare costs and retirement benefits.

The City is currently working on several development/redevelopment projects that will provide more employment and the reuse of existing buildings. This year, a new Quality Inn was opened along the I-69/Lansing Road corridor. The hotel provides overnight lodging for travelers and those interested in visiting the Durand area. Another one of these projects is the redevelopment of the old middle school. This building will be rehabilitated to provide senior housing. The project, when completed, will offer housing for those 55 years of age and older. Woda Development, Inc. out of Columbus, Ohio, will invest approximately \$5 million for this project. Construction is scheduled to begin in winter 2008.

The City continues to work with developers and the Shiawassee Economic Development Partnership to bring more development and jobs to the community. The partnership is now five years old and the City expects more development and economic opportunities to come from this relationship.

CONTACTING THE CITY'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, we invite you to contact the City of Durand administration at City Hall (989) 288-3113.

BASIC FINANCIAL STATEMENTS

CITY OF DURAND, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	DDA
ASSETS:				
Cash and cash equivalents	\$ 787,611	\$ 559,181	\$ 1,346,792	\$ 86,687
Investments	1,259	-	1,259	-
Receivables	379,072	345,517	724,589	150
Prepaid expenses	48,723	11,662	60,385	-
Inventory	6,691	35,521	42,212	-
Restricted Assets -				
Cash and cash equivalents	27,692	161,224	188,916	-
Investments	-	172,528	172,528	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	2,455,842	739,216	3,195,058	57,000
Assets being depreciated	3,456,900	7,034,397	10,491,297	158,880
Total Assets	<u>7,163,790</u>	<u>9,059,246</u>	<u>16,223,036</u>	<u>302,717</u>
LIABILITIES:				
Payables and accrued liabilities	52,927	46,486	99,413	1,103
Accrued interest	15,224	-	15,224	416
Due to other governmental units	-	-	-	27,453
Deposits	-	10,955	10,955	-
Non-current liabilities				
Due within one year	187,035	175,000	362,035	25,000
Due in more than one year	2,859,011	1,551,870	4,410,881	25,000
Total Liabilities	<u>3,114,197</u>	<u>1,784,311</u>	<u>4,898,508</u>	<u>78,972</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	2,870,579	6,053,613	8,924,192	165,880
Restricted				
Acquisition/construction of capital assets	3,386	-	3,386	-
Debt service	116,280	333,752	450,032	-
Well head protection	-	15,000	15,000	-
Streets and sidewalks	384,111	-	384,111	-
Public safety	95,000	-	95,000	-
Other	27,730	-	27,730	36,779
Unrestricted	<u>552,507</u>	<u>872,570</u>	<u>1,425,077</u>	<u>21,086</u>
Total Net Assets	<u>\$ 4,049,593</u>	<u>\$ 7,274,935</u>	<u>\$ 11,324,528</u>	<u>\$ 223,745</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 441,759	\$ 48,002	\$ -	\$ -
Public Safety	798,641	30,583	4,025	-
Public Works	590,903	-	247,922	671,257
Recreation and Culture	124,468	8,740	-	3,209
Interest on Long Term Debt	135,607	-	-	-
Total governmental activities	<u>2,091,378</u>	<u>87,325</u>	<u>251,947</u>	<u>674,466</u>
Business type activities:				
Water Supply System	534,679	551,906	-	-
Wastewater	640,007	821,001	-	-
Refuse Services	189,652	198,542	-	-
Total business type activities	<u>1,364,338</u>	<u>1,571,449</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>3,455,716</u>	<u>1,658,774</u>	<u>251,947</u>	<u>674,466</u>
Component Unit				
Downtown Development Authority	53,317	-	-	-
Total Component Units	<u>\$ 53,317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes

- Property taxes levied for general purposes
- Property taxes levied for streets
- Property taxes levied for debt purposes
- Property taxes levied for ambulance purposes

Grants and contribution not restricted to specific programs

- Sales taxes
- Franchise fees
- Other

Unrestricted investment income

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Prior period adjustments

Net assets at beginning of year as restated

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government			Component Unit DDA
Governmental Activities	Business Type Activities	Total	
\$(393,757)	\$ -	\$(393,757)	\$ -
(764,033)	-	(764,033)	-
328,276	-	328,276	-
(112,519)	-	(112,519)	-
(135,607)	-	(135,607)	-
(1,077,640)	-	(1,077,640)	-
-	17,227	17,227	-
-	180,994	180,994	-
-	8,890	8,890	-
-	207,111	207,111	-
(1,077,640)	207,111	(870,529)	-
-	-	-	(53,317)
-	-	-	(53,317)
1,093,933	-	1,093,933	-
62,330	-	62,330	-
197,703	-	197,703	62,763
47,500	-	47,500	-
510,192	-	510,192	-
29,284	-	29,284	-
-	-	-	10,350
62,194	38,407	100,601	5,419
2,003,136	38,407	2,041,543	78,532
925,496	245,518	1,171,014	25,215
3,099,473	7,002,974	10,102,447	198,530
24,624	26,443	51,067	-
3,124,097	7,029,417	10,153,514	198,530
\$ 4,049,593	\$ 7,274,935	\$ 11,324,528	\$ 223,745

CITY OF DURAND, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2007

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Main Street Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Assets:						
Cash and cash equivalents	\$ 125,358	\$ 66,213	\$ 81,239	\$ -	\$ 404,296	\$ 677,106
Investments	1,259	-	-	-	-	1,259
Receivables -						
Interest and accounts	6,545	-	-	-	403	6,948
Special assessments	-	-	-	-	8,735	8,735
Prepayments and deposits	38,903	-	-	-	-	38,903
Due from other governmental units -						
Federal/State	182,953	28,052	10,869	141,515	-	363,389
Due from other funds	132,536	-	-	-	-	132,536
Inventories	54	2,737	2,810	-	-	5,601
Restricted Assets -						
Cash and cash equivalents	27,692	-	-	-	-	27,692
Total Assets	<u><u>\$ 515,300</u></u>	<u><u>\$ 97,002</u></u>	<u><u>\$ 94,918</u></u>	<u><u>\$ 141,515</u></u>	<u><u>\$ 413,434</u></u>	<u><u>\$ 1,262,169</u></u>
Liabilities:						
Accounts payable	\$ 25,708	\$ 595	\$ -	\$ 7,790	\$ 175	\$ 34,268
Accrued liabilities	16,977	172	207	-	-	17,356
Due to other funds	-	-	-	132,536	-	132,536
Deferred revenue	-	-	-	-	6,579	6,579
Total Liabilities	<u><u>42,685</u></u>	<u><u>767</u></u>	<u><u>207</u></u>	<u><u>140,326</u></u>	<u><u>6,754</u></u>	<u><u>190,739</u></u>
Fund Balances:						
Reserved	66,649	2,737	2,810	1,189	118,477	191,862
Unreserved -						
Designated -	100,000	-	-	-	-	100,000
Undesignated -						
General Fund	305,966	-	-	-	-	305,966
Special Revenue Funds	-	93,498	91,901	-	288,203	473,602
Total Equity	<u><u>472,615</u></u>	<u><u>96,235</u></u>	<u><u>94,711</u></u>	<u><u>1,189</u></u>	<u><u>406,680</u></u>	<u><u>1,071,430</u></u>
Total Liabilities and Fund Equity	<u><u>\$ 515,300</u></u>	<u><u>\$ 97,002</u></u>	<u><u>\$ 94,918</u></u>	<u><u>\$ 141,515</u></u>	<u><u>\$ 413,434</u></u>	<u><u>\$ 1,262,169</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS JUNE 30, 2007

Fund Balances - total governmental funds	\$	1,071,430
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Capital assets		6,479,813
Accumulated depreciation	(1,225,511)

Other long term assets are not available to pay for current period
expenditures and, therefore, are deferred in the funds.

Special Assessments		6,579
---------------------	--	-------

Internal service fund used by management to charge cost of
the City's equipment revolving activities. The assets and liabilities of the
internal service funds are included in governmental activities in the
statement of net assets.

		585,905
--	--	---------

Long - term liabilities, including bonds payable, are not due and payable
in the current period and therefore are not reported in the funds.

Bonds/notes payable	(2,853,399)	
Accrued interest	(15,224)	(2,868,623)

Net Assets of governmental activities

\$	4,049,593
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The notes to the financial statements are an integral part of this statement.

CITY OF DURAND, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2007

	General	Major Street	Local Street	Main Street Project	Other Governmental Fund	Total Governmental Funds
Revenues:						
Taxes	\$ 1,131,404	\$ -	\$ -	\$ -	\$ 307,533	\$ 1,438,937
Licenses and permits	29,736	-	-	-	9,443	39,179
Intergovernmental -						
Federal/State	514,217	170,848	77,074	682,476	-	1,444,615
Charges for services	19,936	-	-	-	-	19,936
Fines and forfeits	12,776	-	-	-	-	12,776
Interest and rent	45,128	2,774	2,102	1,189	14,826	66,019
Special assessment	-	-	-	-	16,948	16,948
Other	6,546	-	-	-	85	6,631
Total Revenues	<u>1,759,743</u>	<u>173,622</u>	<u>79,176</u>	<u>683,665</u>	<u>348,835</u>	<u>3,045,041</u>
Expenditures:						
Current -						
General Government	395,567	-	-	-	-	395,567
Public Safety	763,685	-	-	-	24,915	788,600
Public Works	427,040	116,511	75,137	-	7,152	625,840
Recreation and Cultural	91,062	-	-	-	459	91,521
Capital Outlay	-	-	-	682,476	6,480	688,956
Debt Service						
Principal	25,489	-	-	-	125,000	150,489
Interest	19,024	-	-	-	119,866	138,890
Total Expenditures	<u>1,721,867</u>	<u>116,511</u>	<u>75,137</u>	<u>682,476</u>	<u>283,872</u>	<u>2,879,863</u>
Excess of revenues over expenditures	<u>37,876</u>	<u>57,111</u>	<u>4,039</u>	<u>1,189</u>	<u>64,963</u>	<u>165,178</u>
Other Financing Sources (Uses):						
Transfers from other funds	334	-	48,000	-	52,616	100,950
Transfers to other funds	(52,616)	(48,000)	-	-	(334)	(100,950)
Total Other Financing Sources (Uses)	<u>(52,282)</u>	<u>(48,000)</u>	<u>48,000</u>	<u>-</u>	<u>52,282</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(14,406)</u>	<u>9,111</u>	<u>52,039</u>	<u>1,189</u>	<u>117,245</u>	<u>165,178</u>
Fund Balances at beginning of year	487,021	87,124	42,672	-	241,935	858,752
Prior period adjustment	-	-	-	-	47,500	47,500
Fund Balances at beginning of year restated	<u>487,021</u>	<u>87,124</u>	<u>42,672</u>	<u>-</u>	<u>289,435</u>	<u>906,252</u>
Fund Balances at end of year	<u>\$ 472,615</u>	<u>\$ 96,235</u>	<u>\$ 94,711</u>	<u>\$ 1,189</u>	<u>\$ 406,680</u>	<u>\$ 1,071,430</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES JUNE 30, 2007

Net change in fund balances - total governmental funds		\$	165,178
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay			784,221
Depreciation expense		(114,232)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
Special assessments		(6,867)
State grants		(21,300)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.			
Principal payments on long term liabilities	150,489		
Decrease in accrued interest	<u>3,283</u>		153,772
Internal service funds used by management to charge costs of the City's equipment revolving activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.			
		(<u>35,276</u>)
Change in net assets of governmental activities		\$	<u>925,496</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DURAND, MICHIGAN

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007**

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Fund
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$ 53,947	\$ 469,037	\$ 36,197	\$ 559,181	\$ 110,505
Accounts and interest receivable	129,237	201,836	14,444	345,517	-
Inventories	35,521	-	-	35,521	1,090
Prepaid expenses	5,568	6,094	-	11,662	9,820
Restricted Assets:					
Cash and cash equivalents	80,612	80,612	-	161,224	-
Investments	-	172,528	-	172,528	-
Total Current Assets	<u>304,885</u>	<u>930,107</u>	<u>50,641</u>	<u>1,285,633</u>	<u>121,415</u>
Property, Plant and Equipment:					
Property, plant and equipment	5,331,970	7,980,647	-	13,312,617	1,925,492
Less - accumulated depreciation	(1,734,960)	(3,804,044)	-	(5,539,004)	(1,267,052)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>3,597,010</u>	<u>4,176,603</u>	<u>-</u>	<u>7,773,613</u>	<u>658,440</u>
Total Assets	<u><u>3,901,895</u></u>	<u><u>5,106,710</u></u>	<u><u>50,641</u></u>	<u><u>9,059,246</u></u>	<u><u>779,855</u></u>
LIABILITIES:					
Current Liabilities:					
Accounts payable	20,902	19,683	-	40,585	405
Accrued expenses	4,061	1,840	-	5,901	898
Bonds/Notes payable (current portion)	50,000	125,000	-	175,000	20,450
Customer deposits	10,955	-	-	10,955	-
Total Current Liabilities	<u>85,918</u>	<u>146,523</u>	<u>-</u>	<u>232,441</u>	<u>21,753</u>
Long-Term Liabilities (net of current portions):					
Accrued vacation and sick	4,089	2,781	-	6,870	3,883
Notes payable (net of current portion)	272,500	1,272,500	-	1,545,000	168,314
Total Long-Term Liabilities	<u>276,589</u>	<u>1,275,281</u>	<u>-</u>	<u>1,551,870</u>	<u>172,197</u>
Total Liabilities	<u><u>362,507</u></u>	<u><u>1,421,804</u></u>	<u><u>-</u></u>	<u><u>1,784,311</u></u>	<u><u>193,950</u></u>
NET ASSETS:					
Investment in capital assets, net of related liabilities	3,274,510	2,779,103	-	6,053,613	469,676
Restricted -					
Debt service	80,612	253,140	-	333,752	-
Well head protection	15,000	-	-	15,000	-
Unrestricted -					
Undesignated	<u>169,266</u>	<u>652,663</u>	<u>50,641</u>	<u>872,570</u>	<u>116,229</u>
Total Net Assets	<u><u>\$ 3,539,388</u></u>	<u><u>\$ 3,684,906</u></u>	<u><u>\$ 50,641</u></u>	<u><u>\$ 7,274,935</u></u>	<u><u>\$ 585,905</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2007

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Fund
Operating Revenues:					
Charges for services	\$ 527,178	\$ 789,664	\$ 192,026	\$ 1,508,868	\$ 316,876
Hydrant Rental	7,500	-	-	7,500	-
Other	17,228	31,337	6,516	55,081	204
Total Operating Revenues	<u>551,906</u>	<u>821,001</u>	<u>198,542</u>	<u>1,571,449</u>	<u>317,080</u>
Operating Expenses:					
Personal services	145,494	145,357	-	290,851	60,066
Administrative expenses	100,000	100,000	33,000	233,000	40,000
Supplies and postage	22,011	25,595	1,432	49,038	531
Other services	152,520	125,918	155,220	433,658	96,971
Depreciation	103,930	170,396	-	274,326	159,567
Total Operating Expenses	<u>523,955</u>	<u>567,266</u>	<u>189,652</u>	<u>1,280,873</u>	<u>357,135</u>
Operating Income (Loss)	<u>27,951</u>	<u>253,735</u>	<u>8,890</u>	<u>290,576</u>	<u>(40,055)</u>
Non-Operating Revenues (Expenses):					
Gain on sale of assets	-	-	-	-	8,892
Interest earned	13,034	23,755	1,618	38,407	4,778
Interest expenses	(10,724)	(72,741)	-	(83,465)	(8,891)
Total Non-Operating Revenues (Expenses)	<u>2,310</u>	<u>(48,986)</u>	<u>1,618</u>	<u>(45,058)</u>	<u>4,779</u>
Net Income (Loss)	<u>30,261</u>	<u>204,749</u>	<u>10,508</u>	<u>245,518</u>	<u>(35,276)</u>
Net Assets at beginning of year	3,460,630	3,502,211	40,133	7,002,974	644,057
Prior period adjustments	<u>48,497</u>	<u>(22,054)</u>	<u>-</u>	<u>26,443</u>	<u>(22,876)</u>
Net Assets at beginning of year as restated	<u>3,509,127</u>	<u>3,480,157</u>	<u>40,133</u>	<u>7,029,417</u>	<u>621,181</u>
Net Assets at end of year	<u>\$ 3,539,388</u>	<u>\$ 3,684,906</u>	<u>\$ 50,641</u>	<u>\$ 7,274,935</u>	<u>\$ 585,905</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Wastewater	Refuse Service	Total	Internal Service Fund
Cash Flows From Operating Activities:					
Cash receipts from customers	\$ 554,982	\$ 831,282	\$ 192,407	\$ 1,578,671	\$ -
Cash receipts (payments) from interfund services	(100,000)	(100,000)	(33,000)	(233,000)	277,080
Cash payments to suppliers	(159,842)	(177,819)	(169,480)	(507,141)	(100,147)
Cash payments to employees	(141,315)	(145,339)	-	(286,654)	(59,146)
Net Cash Provided (Used) by Operating Activities	<u>153,825</u>	<u>408,124</u>	<u>(10,073)</u>	<u>551,876</u>	<u>117,787</u>
Cash Flows From Capital and Related Financing Activities:					
Bond Proceeds	175,000	175,000	-	350,000	-
Bond/Note payments	(27,500)	(97,500)	-	(125,000)	(37,481)
Interest Paid on long term debt	(10,724)	(72,741)	-	(83,465)	(8,891)
Gain on disposal of fixed assets	-	-	-	-	8,892
Acquisition and construction of capital assets	(426,475)	(147,915)	-	(574,390)	(121,768)
Net Cash Used by Capital and Related Financing Activities	<u>(289,699)</u>	<u>(143,156)</u>	<u>-</u>	<u>(432,855)</u>	<u>(159,248)</u>
Cash Flows From Investing Activities:					
Purchase of investments	-	(6,534)	-	(6,534)	-
Interest earned	13,034	23,755	1,618	38,407	4,778
Net Cash Provided by Investing Activities	<u>13,034</u>	<u>17,221</u>	<u>1,618</u>	<u>31,873</u>	<u>4,778</u>
Net Increase (Decrease) in Cash and Cash Equivalents for the year	(122,840)	282,189	(8,455)	150,894	(36,683)
Cash and Cash Equivalents at Beginning of Year	<u>257,399</u>	<u>267,460</u>	<u>44,652</u>	<u>569,511</u>	<u>147,188</u>
Cash and Cash Equivalents at End of Year	<u>\$ 134,559</u>	<u>\$ 549,649</u>	<u>\$ 36,197</u>	<u>\$ 720,405</u>	<u>\$ 110,505</u>
Reconciliation of Net Income (Loss) to:					
Net Cash Provided (Used) by Operating Activities					
Operating income (loss) for the year	\$ 27,951	\$ 253,735	\$ 8,890	\$ 290,576	\$(40,055)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -					
Depreciation	103,930	170,396	-	274,326	159,567
Change in assets and liabilities:					
Receivable	1,436	10,281	(6,135)	5,582	-
Prepaid and deposits	1,755	2,585	-	4,340	3,401
Inventory	(2,722)	105	-	(2,617)	262
Accounts payable/accrued expenses	21,475	(28,978)	(12,828)	(20,331)	(5,388)
Net Cash Provided (Used) By Operating Activities	<u>\$ 153,825</u>	<u>\$ 408,124</u>	<u>\$(10,073)</u>	<u>\$ 551,876</u>	<u>\$ 117,787</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Other Employee Benefit Trust Fund	Tax Agency Fund
ASSETS:		
Cash and cash equivalents	\$ 19,630	\$ -
Accounts receivable	2,621	-
Prepaid insurance	<u>32,958</u>	<u>-</u>
Total Assets	<u><u>\$ 55,209</u></u>	<u><u>\$ -</u></u>
LIABILITIES:		
Accounts payable	\$ 9,517	\$ -
Accrued liabilities	2,807	-
Accrued vacation and sick	<u>36,400</u>	<u>-</u>
Total Liabilities	<u><u>\$ 48,724</u></u>	<u><u>\$ -</u></u>
NET ASSETS:	<u><u>\$ 6,485</u></u>	

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

Additions:	
Contributions	<u>\$ 469,852</u>
Deductions:	
Life and disability	13,993
Retirement	108,466
Hospitalization, eye and dental	<u>350,047</u>
Total Deductions	<u>472,506</u>
Net Change	(2,654)
Net assets held in trust for pension benefits	
Beginning of year	<u>9,139</u>
End of year	<u><u>\$ 6,485</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity –

The City of Durand, Michigan, was incorporated March 14, 1932, under the provisions of Act 279, PA 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police, fire and inspection), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governments' operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate for the City.

DISCRETELY PRESENTED COMPONENT UNIT –

CITY OF DURAND DOWNTOWN DEVELOPMENT AUTHORITY (DDA) – The Downtown Development Authority (DDA) was established in 1991. The DDA is organized under P.A. 197, of 1975. The purpose of the DDA is to revitalize and prevent deterioration of the central business district, to encourage historic preservation, authorize the acquisition and disposal of interests in real and personal property, seek out and attract new business interest, authorize the creation and implementation of redevelopment plans in the district, promote economic growth of the district and implement programs to eliminate the further decline of properties and their values in the district.

The City of Durand Downtown Development Authority (DDA) is reported discretely to emphasize that it is legally separate from the City. The DDA Board is comprised of up to thirteen members and one ex-officio member appointed by the Mayor with City Council's approval. The DDA is responsible for the creation of a development and financing plan for the downtown district or a development area within the district to promote economic growth. The Authority must obtain City Council approval of all development and financing plans. The annual operating budget and any modifications also require the approval of the Durand City Council.

RELATED ORGANIZATIONS - The Durand Union Station, Inc. (a non-profit 501(c)(3) corporation) was organized for the development and operation of the Durand Union Station, Inc. Although the building is owned by the City, the financial statements of the Durand Union Station, Inc. are not included in the City's financial statements since the City Council does not appoint Board members and the City is not fiscally responsible for the operation.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

B. Government-wide and fund financial statements –

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation –

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied on July 1, and payable at that time, are recognized as revenue in the year due. Also only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund – is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund – is a special revenue fund used to account for Act 51 money and other related revenues restricted for major streets maintenance and improvements.

Local Street Fund – is a special revenue fund used to account for Act 51 money and other related revenues restricted for local streets maintenance and improvements.

Main Street Project Fund – is a capital project fund used to account for infrastructure and capital improvements partially financed by federal and state grants.

The City reports the following major proprietary funds:

Water Supply System Fund – is used to account for the treatment and distribution of water to residential and commercial users.

Wastewater Fund – is used to account for sanitary sewer services provided to the residential and commercial users.

Refuse Services Fund – is used to account for the operations and activities of garbage collection and recycling for residential customers within the City of Durand.

Additionally, the City reports the following fund types –

Special Revenue Funds – are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Debt Service Funds – are used to account for the accumulation of resources for, and the payment of long-term general obligation debt of governmental funds.

Capital Projects Funds – are used to account for revenue restricted for the acquisition and/or construction of major capital assets not being financed by proprietary funds.

Internal Service Fund – is used to account for the costs of operating and maintaining the City’s equipment. Charges are made to other funds based on equipment used.

Other Employee Trust Fund – is used to accumulate resources for insurance, health benefits, and vested vacation and sick for qualified employees.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Tax Agency Trust Fund - is used to account for collection and distribution of taxes. The Agency Fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for these business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the enterprise and internal services funds are charges to customers for sale and services. Operating expenses from enterprise and internal service funds include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, the unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity -

Deposits and Investments -

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value. Investments are certificates of deposit with a maturity of greater than ninety days from purchase date.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Receivables and Payables -

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property Tax Receivables -

All delinquent real property taxes, utility charges and special assessments become liens against the related property and are reimbursed by Shiawassee County’s Delinquent Tax Revolving Fund. The County will, however, charge back to the City any amounts not collected at the end of three years.

Allowances For Doubtful Accounts Receivable -

The City utilizes the direct write-off method for all funds. Past experience has indicated the write-off of accounts receivable are immaterial and do not warrant the use of a contra account for this allowance.

Inventories and Prepaid Items -

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds, except DPW supplies are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Property Tax Calendar -

Taxes are levied on July 1 and are payable at that time. The City bills and collects its own property taxes and also collects taxes for the County, intermediate school district, community college, library and local school district. Collections of all taxes other than City taxes and the remittance of them are accounted for in the Tax Collection Fund.

The City is permitted by state statute to levy taxes of 16.6252 mills for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The City levied 15.6252 mills for general governmental purposes plus 2.85 mills for debt service and 0.9052 mills for streets for a total of 19.3804 mills.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Capital Assets -

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure (principally roads and sidewalks) acquired prior to July 1, 2003.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>	<u>Component Unit (DDA)</u>
Buildings and Building Improvements	30-50	-
Machinery and equipment	3-30	-
Vehicles	3-12	-
Streets/Street lights	20-30	30
Water and sewer system	5-50	-
Drains	-	50
Roads and sidewalks	5-50	-

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The City has elected to fund vacation and sick time as it is earned. As a result these amounts are appropriately accounted for in the Other Employee Benefit Trust Fund.

Long-Term Obligations -

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity -

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information -

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- 1) Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budgets include proposed expenditures and the means of financing them.
- 2) A public hearing is conducted to obtain taxpayers' comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution. The budgets are legally enacted at the activity level for the General Fund and total fund level for the Special Revenue Funds and Downtown Development Authority.
- 4) Any amendments to the budget must be approved by City Council.
- 5) Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue Funds and the Downtown Development Authority.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

- 6) Budget appropriations lapse at year-end.
- 7) The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.

The general fund budget is approved at the activity level and the total expenditure level for the Special Revenue Funds. Expenditures at these legally adopted levels are a violation of the Budgetary Act. During the year the City incurred expenditures in the General and Special Revenue Fund, which was in excess of the amount appropriated as follows:

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
General Fund –			
General Government –			
Assessor	\$ 24,000	\$ 24,762	\$ 5,762
Treasurer	128,100	130,915	2,815
Public Safety –			
Police Department	640,000	665,491	25,491
Fire Department	93,650	98,194	4,544
Public Works –			
Director of Public Works	71,400	72,047	647
Recreation and Cultural –			
Parks and Recreation	81,800	91,062	9,262
Transfers Out			
Building Inspector	-	15,475	15,475

Although the City complies with Michigan Compiled Laws, the City's investment policy requires that various information be obtained from each financial institution, that certain quarterly reporting of investments be made to the City Council, and that certificates of deposit be collateralized at 102% of market value of principle and accrued interest. We noted that the City was not in compliance in these areas.

NOTE 3 - DEPOSITS AND INVESTMENTS:

At year-end, the carrying amount of the City Reporting Entity's deposits and investments are as follows:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Unit</u>	<u>Reporting Entity</u>
Petty cash and cash on hand	\$ 250	\$ 50	\$ -	\$ 300
Deposits with Financial Institutions -				
Checking/Money Market	303,057	38,857	19,630	361,544
Certificates of Deposit	1,056,539	47,780	-	1,104,319
Total Deposits	1,359,596	86,637	19,630	1,465,863
Investments -				
Investment Trusts/Mutual Funds	349,649	-	-	349,649
Grand Total	\$ 1,709,495	\$ 86,687	\$ 19,630	\$ 1,815,812

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

Reconciliation To Combined Balance Sheet

	Primary Government	Component Unit	Fiduciary Unit	Reporting Entity
Reported as Cash and Cash Equivalents -				
Petty Cash and Cash On Hand	\$ 250	\$ 50	\$ -	\$ 300
Checking/Money Market	303,057	38,857	19,630	361,544
Certificates of Deposit	882,752	47,780	-	930,532
Investment Trusts/Mutual Funds	<u>349,649</u>	<u>-</u>	<u>-</u>	<u>349,649</u>
Total Cash and Cash Equivalents				
Reported on Combined Balance Sheet	<u>1,535,708</u>	<u>86,687</u>	<u>19,630</u>	<u>1,642,025</u>
 Reported as Investments -				
Certificate of Deposit	<u>173,787</u>	<u>-</u>	<u>-</u>	<u>173,787</u>
 Grand Total - Combined Balance Sheet	<u>\$ 1,709,495</u>	<u>\$ 86,687</u>	<u>\$ 19,630</u>	<u>\$1,815,812</u>

Safety of principal is the primary objective of the City's investment policy. Deposits and investments of the City should be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain the objective, diversification is required in order that potential losses in individual securities do not exceed the income generated from the remainder of the portfolio.

Deposits -

The City's investment policy and Act 217 PA 1982, as amended, authorizes the City to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2007, the bank balance of the City's deposits were \$1,554,795 of which \$487,135 was FDIC insured with the balance \$1,067,660 exposed to credit risk because they are uninsured and uncollateralized.

Custodial Credit Risk - is the risk that in the event of a bank failure, the City's deposits or investments may not be returned. The City policy requires all financial institutions provide certain information to the City regarding the financial strength of the institution and that the Treasurer conduct an annual review. The City's investment policy also requires collateralization of 102% of the market value of principle and accrual interest for all certificates of deposit.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

Investments -

Act 20 PA 1994, as amended by Act 1997 PA 1999, authorizes the City to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase; are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.188; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

At June 30, 2007, the City was invested in one mutual fund with SEI Investments in the amount of \$349,649. The fund invests exclusively in U.S. Treasury obligations and repurchase agreements fully collateralized by U.S. Treasury obligations. The fund has an AAA rating and an average weighted maturity of 3 days.

Interest Rate Risk - is the risk that the market value of securities in the City's portfolio will fall due to changes in market interest increases. The City policy attempts to minimize interest rate risk by avoiding the need to sell securities prior to maturity and investing operating funds primarily in short term securities, money markets mutual funds or similar public investment pools. The City's investment policy does not address interest rate risk.

Credit Risk - is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws limit the types of investments the City can purchase.

Concentration of Credit Risk - is the risk of loss attributed to the magnitude of the City's investments in a single issuer. The City's investment policy requires that it diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 4 - RECEIVABLES:

Receivables in the governmental and business type activities are as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Interest and accounts	\$ 6,948	\$ 345,517
Special Assessments	8,735	-
Intergovernmental – Federal/State	<u>363,389</u>	<u>-</u>
	<u>\$ 379,072</u>	<u>\$ 345,517</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Special Assessments	<u>\$ 6,579</u>

NOTE 5 - CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2007 was as follows:

	<u>July 1, 2006 Balance</u>	<u>Additions</u>	<u>Deletions/ Adjustments</u>	<u>June 30, 2007 Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,597,052	\$ -	\$ -	\$ 1,597,052
Construction in progress				
Streetscape	74,569	436,773	-	511,342
Street Improvement	<u>-</u>	<u>347,448</u>	<u>-</u>	<u>347,448</u>
Total capital assets not being depreciated	<u>1,671,621</u>	<u>784,221</u>	<u>-</u>	<u>2,455,842</u>
Capital assets, being depreciated:				
Buildings and improvements	3,290,837	-	-	3,290,837
Infrastructure	604,463	-	-	604,463
Machinery and equipment	1,064,087	3,765	9,416	1,058,436
Vehicles	<u>933,934</u>	<u>118,003</u>	<u>56,210</u>	<u>995,727</u>
Total capital assets being depreciated	<u>5,893,321</u>	<u>121,768</u>	<u>65,626</u>	<u>5,949,463</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 987,432	\$ 75,217	\$ -	\$ 1,062,649
Infrastructure	48,738	30,223	-	78,961
Machinery and equipment	533,114	90,697	(13,460)	637,271
Vehicles	<u>692,230</u>	<u>77,662</u>	<u>56,210</u>	<u>713,682</u>
Total accumulated depreciation	<u>2,261,514</u>	<u>273,799</u>	<u>42,750</u>	<u>2,492,563</u>
Total capital assets being depreciated, net	<u>3,631,807</u>	<u>(152,031)</u>	<u>22,876</u>	<u>3,456,900</u>
Governmental activities capital assets, net	<u>\$ 5,303,428</u>	<u>\$ 632,190</u>	<u>\$ 22,876</u>	<u>\$ 5,912,742</u>

CITY OF DURAND, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 5 - CAPITAL ASSETS - (cont'd):

	July 1, 2006 <u>Balance</u>	<u>Additions</u>	<u>Deletions/ Adjustments</u>	June 30, 2007 <u>Balance</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 151,400	\$ -	\$ -	\$ 151,400
Construction in progress				
Water	6,713	426,475	-	433,188
Sanitary Sewer	<u>6,713</u>	<u>147,915</u>	-	<u>154,628</u>
Total capital assets, not being depreciated	<u>164,826</u>	<u>574,390</u>	-	<u>739,216</u>
Capital assets, being depreciated:				
Buildings and improvements	3,784,515	-	-	3,784,515
Machinery and equipment	68,154	-	-	68,154
Wastewater System	4,323,472	-	-	4,323,472
Water System	<u>4,397,260</u>	-	-	<u>4,397,260</u>
Total capital assets being depreciated	<u>12,573,401</u>	-	-	<u>12,573,401</u>
Less accumulated depreciation for:				
Building and improvements	2,063,574	74,916	(54,062)	2,192,552
Machinery and equipment	59,560	2,361	-	61,921
Wastewater System	1,663,059	101,205	32,008	1,732,256
Water System	<u>1,504,928</u>	<u>95,844</u>	<u>48,497</u>	<u>1,552,275</u>
Less accumulated depreciation	<u>5,291,121</u>	<u>274,326</u>	<u>26,443</u>	<u>5,539,004</u>
Total Capital assets being depreciated, net	<u>7,282,280</u>	(274,326)	(26,443)	<u>7,034,397</u>
Business activities capital assets, net	<u>\$ 7,447,106</u>	<u>\$ 300,064</u>	<u>\$ (26,443)</u>	<u>\$ 7,773,613</u>
Component Unit (DDA):				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 57,000	\$ -	\$ 57,000
Capital assets, being depreciated:				
Street lights	204,000	-	-	204,000
Drain improvements	<u>48,000</u>	-	-	<u>48,000</u>
Total capital assets being depreciated	252,000	-	-	252,000
Less accumulated depreciation	<u>85,360</u>	<u>7,760</u>	-	<u>93,120</u>
Total capital assets being depreciated, net	<u>166,640</u>	(7,760)	-	<u>158,880</u>
Component unit capital assets, net	<u>\$ 166,640</u>	<u>\$ 49,240</u>	<u>\$ -</u>	<u>\$ 215,880</u>

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5 - CAPITAL ASSETS - (cont'd):

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 46,192
Public Safety	10,041
Public Works	31,532
Recreation and Cultural	<u>26,467</u>
Total depreciation expense-governmental activities	<u>\$ 114,232</u>
Business-type activities:	
Water Fund	\$ 103,930
Sewer Fund	<u>170,396</u>
Total depreciation expense-business-type activities	<u>\$ 274,326</u>
Component unit activities:	
Downtown Development Authority	<u>\$ 7,760</u>

In addition there was depreciation of \$159,567 in the Equipment Revolving Fund.

NOTE 6 - PAYABLES:

Payables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts payable/accrued liabilities	\$ 34,673	\$ 40,585
Accrued wages and fringe benefits	<u>18,254</u>	<u>5,901</u>
	<u>\$ 52,927</u>	<u>\$ 46,486</u>

NOTE 7 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

The composition of interfund balances as of June 30, 2007:

Due To/From Other Funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Main Street Project Fund	<u>\$ 132,536 (1)</u>

CITY OF DURAND, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 7 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS - (cont'd):

Transfers From/To Other Funds -

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Local Street Fund	Major Street Fund	\$ 48,000 (4)
Building Inspection Fund	General Fund	15,475 (4)
Fire Hall Debt Retirement Fund	General Fund	37,141 (2)
General Fund	DOS Centennial Commission	<u>334 (3)</u>
Total Transfers		<u>\$ 100,950</u>

- (1) Short term cash advance
- (2) Appropriation for debt service
- (3) To close out fund
- (4) Annual appropriation and support operations

NOTE 8 - LONG-TERM LIABILITIES:

PRIMARY GOVERNMENT -

The following is a summary of changes in the long-term liabilities (including current portions) for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
Governmental Activities:					
Governmental Funds -					
2001 Refunding Bond	\$ 335,000	\$ -	\$ 25,000	\$ 310,000	\$ 30,000
2001 Refunding Bond	2,020,000	-	70,000	1,950,000	80,000
2002 Limited Tax Bond	195,000	-	30,000	165,000	30,000
2005 Installment Purchase Contract	<u>453,888</u>	<u>-</u>	<u>25,489</u>	<u>428,399</u>	<u>26,585</u>
Total Governmental Funds	<u>3,003,888</u>	<u>-</u>	<u>150,489</u>	<u>2,853,399</u>	<u>166,585</u>
Internal Service Fund -					
2001 Installment Purchase	17,827	-	17,827	-	-
2005 Installment Purchase	208,418	-	19,654	188,764	20,450
Compensated Absences	<u>3,028</u>	<u>855</u>	<u>-</u>	<u>3,883</u>	<u>-</u>
Total Internal Service Fund	<u>229,273</u>	<u>855</u>	<u>37,481</u>	<u>192,647</u>	<u>20,450</u>
Total Governmental Activities	<u>3,233,161</u>	<u>855</u>	<u>187,970</u>	<u>3,046,046</u>	<u>187,035</u>

CITY OF DURAND, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
<u>Business-Type Activities:</u>					
Enterprise Funds –					
Wastewater Fund –					
Wastewater Treatment					
Bonds, Series 1998	\$ 75,000	\$ -	\$ 35,000	\$ 40,000	\$ 40,000
2004 Capital					
Improvement Bond	175,000	-	27,500	147,500	27,500
2007 Capital					
Improvement Bond	-	175,000	-	175,000	22,500
Wastewater Treatment					
Bonds, Series 1999	1,070,000	-	35,000	1,035,000	35,000
Compensated Absences	3,199	-	418	2,781	-
Water Fund –					
2004 Capital					
Improvement Bond	175,000	-	27,500	147,500	27,500
2007 Capital					
Improvement Bond	-	175,000	-	175,000	22,500
Compensated Absences	<u>2,069</u>	<u>2,020</u>	<u>-</u>	<u>4,089</u>	<u>-</u>
Total Business-type Activities	<u>1,500,268</u>	<u>352,020</u>	<u>125,418</u>	<u>1,726,870</u>	<u>175,000</u>
<u>Fiduciary Activities:</u>					
Agency Fund –					
Employee Benefit Fund –					
Compensated Absences	<u>42,866</u>	<u>-</u>	<u>6,466</u>	<u>36,400</u>	<u>-</u>
 Total Entity Primary Government	 <u>\$ 4,776,295</u>	 <u>\$ 352,875</u>	 <u>\$ 319,854</u>	 <u>\$4,809,316</u>	 <u>\$ 362,035</u>

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

General Obligation Bonds -

\$300,000 General Obligation Unlimited Tax Bonds,
dated October 7, 2002, due in annual installments
of \$30,000 to \$35,000 through May 1, 2012, with
interest of 3.2% to 3.85% payable semi-annually

\$ 165,000

\$450,000, General Obligation Unlimited Tax
Sewer Refunding Bonds, dated July 17, 2001
due in annual installments of \$30,000 to \$50,000
through May 1, 2015, with interest ranging from
4.50% to 5% payable semi-annually

310,000

CITY OF DURAND, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

\$2,255,000, General Obligation Unlimited Tax Water Refunding Bonds, dated July 17, 2001, due in annual installments of \$80,000 to \$285,000 through May 1, 2019, with interest ranging from 3.85% to 5% payable semi-annually

\$ 1,950,000

\$ 2,425,000

Water and Wastewater Treatment Bonds -

\$250,000, Sewage Disposal System Revenue Bonds, dated July 1, 1999, due in an annual installment of \$40,000 through July 1, 2008, with interest of 4.5% payable at due date

\$ 40,000

\$1,300,000 Sewage Disposal System Revenue Bonds, dated September 23, 1999, due in annual installments of \$35,000 to \$100,000 through May 1, 2018, with interest of 5.30% to 5.65% payable semi-annually

1,035,000

1,075,000

\$400,000, General Obligation Limited Tax Capital Improvement Bonds, dated October 12, 2004, due in annual installments of \$55,000 to \$65,000 through October 1, 2011, with interest of 2.75% to 3.30% payable semi-annually. The bonds are being repaid 50% from the Water Fund and 50% from the Sewer Fund

295,000

\$350,000 General Obligation Limited Tax Capital Improvement Bonds, dated June 6, 2007, due in annual installments of \$45,000 to \$55,000 through May 1, 2014 with interest of 3.70% to 4.00% payable semi-annually. The bonds are being repaid 50% from the Water Fund and 50% from the Sewer Fund

350,000

645,000

\$ 1,720,000

Installment Loan Funds -

On September 2, 2004, the City of Durand entered into an installment purchase agreement to finance a purchase of real estate in the amount of \$490,000. The note is payable over fifteen years with an interest rate of 4.25%

428,399

CITY OF DURAND, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

On April 15, 2005, the City of Durand entered into an installment purchase agreement to finance a purchase of a cleaner mounted truck in the amount of \$227,307. The note is payable over ten years with an interest rate of 4.05%

\$ 188,764

\$ 617,163

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the City of Durand, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights has been accrued on the financial statements in the Water Fund, Wastewater Fund, Equipment Revolving Fund and Employee Benefits Fund in the amounts of \$4,089, \$2,781, \$3,883 and \$36,400, respectively at June 30, 2007.

The annual debt service requirements to maturities for the long-term obligations outstanding at June 30, 2007 (excluding compensated absences) are as follows:

Year Ending June 30,	Water and Wastewater Bonds				Capital Improvement Bonds			
	General Obligation Bonds		Revenue Bonds		Installment Loan		Improvement Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 140,000	\$ 113,988	\$ 75,000	\$ 57,955	\$ 47,035	\$ 25,572	\$ 100,000	\$ 20,149
2009	150,000	108,478	100,000	54,300	49,005	23,602	100,000	18,160
2010	165,000	102,313	100,000	49,000	51,058	21,550	110,000	14,930
2011	180,000	95,375	100,000	43,700	53,196	19,411	110,000	11,245
2012	195,000	87,703	100,000	38,400	55,425	17,183	115,000	7,343
2013-2017	1,045,000	302,300	500,000	110,900	256,633	50,214	110,000	6,545
2018-2022	<u>550,000</u>	<u>41,750</u>	<u>100,000</u>	<u>5,650</u>	<u>104,812</u>	<u>6,789</u>	-	-
	<u>\$ 2,425,000</u>	<u>\$ 851,907</u>	<u>\$ 1,075,000</u>	<u>\$ 359,905</u>	<u>\$ 617,164</u>	<u>\$ 164,321</u>	<u>\$ 645,000</u>	<u>\$ 78,372</u>

COMPONENT UNIT -

The following is a summary of changes in long-term liabilities (including current portion) of the Component Unit for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Downtown Development Authority – Tax Increment Development Bonds	<u>\$ 75,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 50,000</u>	<u>\$ 25,000</u>

\$225,000 Limited Tax General Obligation Tax Increment Development Bonds, dated December 7, 1994, due in annual installments of \$25,000 through May 1, 2009, with interest ranging from 5.00% to 7.00% payable semi-annually

\$ 50,000

CITY OF DURAND, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

The annual debt service requirements to maturity for the long-term obligations outstanding at June 30, 2007 are as follows:

<u>Year Ending June 30,</u>	<u>Development Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 25,000	\$ 2,500
2009	<u>25,000</u>	<u>1,250</u>
	<u>\$ 50,000</u>	<u>\$ 3,750</u>

NOTE 9 - RETIREMENT PLANS:

Plan Description -

The City of Durand participates in the Municipal Employees Retirement System (MERS), a multiple employer statewide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the City Council requires no member contributions. The City is required to contribute at an actuarially determined rate; the rate for 2007 was 9.02% and 16.49% of payroll for general government and police/fire departments, respectively. The contribution requirements of plan members and the City are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Costs -

For fiscal 2007, the City's annual pension cost of \$108,466 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation and (c) additional projected salary increases ranging from 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

CITY OF DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 9 - RETIREMENT PLANS - (cont'd):

Three-Year Trend Information

Fiscal Year Ending June 30,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2005	\$ 101,213	100	-
2006	85,128	100	-
2007	108,466	100	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2004	\$ 2,755,571	\$ 3,370,613	\$ 615,042	82 %	\$ 1,001,469	61 %
2005	2,875,799	3,387,910	512,111	85	938,634	55
2006	3,076,108	3,664,939	588,831	84	957,355	62

NOTE 10 - POST RETIREMENT BENEFITS:

In addition to the pension benefits described in Note 9, the City provides Health Care coverage for retired employees with twenty-five (25) years of service and for employees with less than twenty-five (25) years of service, if age sixty (60) has been reached. Employees receive upon retirement and eligibility for a pension from the City, four percent (4%) per year of service, paid toward the above stated coverage. The expenditures for the post-retirement health care benefits are recognized on a pay-as-you-go basis. The expenditures for retirees' health insurance amount to \$64,007 for 2007.

NOTE 11 - RISK MANAGEMENT:

General Liability

The City participates in the Michigan Municipal League Liability and Property Pool liability insurance program. In general, the City carries \$10,000,000 of liability coverage and approximately \$18,377,000 of property insurance with a \$1,000 per claim deductible on property and computer equipment, and a \$1,000 per claim deductible on equipment and mechanical systems.

Workers' Compensation

The City participates in the Michigan Municipal Workers' Compensation Self-Insurance Fund administered by the Michigan Municipal League. The Fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

CITY OF DURAND, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 12 - CONTINGENCIES:

The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2007.

The City collects assessments for emergency ambulance services for its residents each year. Because a contract has not been agreed to with the Durand Vernon Ambulance service that amount has not been paid to that organization, although they have continued services to the City. The amount due to this organization, if any, has not been determined.

NOTE 13 - FUND EQUITY - RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS:

Reserved Fund Balance -

Fund Balance has been reserved in the following funds to indicate a portion of fund balance is not available but reserved for a specific purpose at June 30, 2007.

Primary Government –

General Fund –

Prepaid and Deposits	\$ 38,903
Inventory	54
Park Donations	24,217
Drug Forfeiture	271
Park Development	1,800
Other	<u>1,404</u>
	<u>66,649</u>

Major Street Fund –

Inventory	<u>2,737</u>
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Local Street Fund –

Inventory	<u>2,810</u>
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Main Street Project Fund –

Capital Project	<u>1,189</u>
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Other Governmental Funds -

Debt Service –

Fire Hall	3,253
2001 Wastewater Treatment Plant Fund	33,492
2001 Water Bond	79,349
2007 Capital Bond	186

Capital Project –

Industrial Complex	51
Depot Restoration	<u>2,146</u>

Total Other Governmental Funds	<u>118,477</u>
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Total Primary Government	<u>\$ 191,862</u>
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CITY OF DURAND, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 13 - FUND EQUITY - RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS - (cont'd):

Component Unit –

Downtown Development Authority –

Friday Night Live

Facade

\$ 14,758

22,021

\$ 36,779

Designated Fund Balance –

The City Council has designated \$100,000 of the General Fund Fund Balance for establishing a post retirement benefit fund.

Reserved Retained Earnings –

Retained Earnings has been reserved in the Water and Wastewater Funds at June 30, 2007 in the amount of \$80,612 for Debt Service payments. In addition, the Water Fund retained earnings has been reserved in amount of \$15,000 for Well head protection.

NOTE 14 - PRIOR PERIOD ADJUSTMENTS:

Prior period adjustments were made to adjust accumulated depreciation in Proprietary Funds. The adjustments resulted in an increase in the net assets of the Water Fund amount of \$48,497 and a decrease in net assets of Wastewater and Internal Service Funds in amounts of \$22,054 and \$22,876 respectively.

A prior period adjustment was made to increase the fund balance for the Ambulance Fund in the amount of \$47,500 to recognize prior year collections of assessments that were recorded in the Tax Agency Fund.

NOTE 15 - SUBSEQUENT EVENT:

On August 30, 2007, the City of Durand entered into a real estate purchase agreement in amount of \$82,500.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DURAND, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2007

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 1,167,200	\$ 1,142,200	\$ 1,131,404	\$(10,796)
Licenses and permits	28,500	28,500	29,736	1,236
Intergovernmental -				
Federal/State	546,400	526,250	514,217	(12,033)
Charges for services	12,700	17,500	19,936	2,436
Fines and forfeits	18,000	18,000	12,776	(5,224)
Interest and rents	24,000	35,000	45,128	10,128
Other	-	2,350	6,546	4,196
	<u>1,796,800</u>	<u>1,769,800</u>	<u>1,759,743</u>	<u>(10,057)</u>
Expenditures:				
General Government -				
Legislative	18,000	16,000	14,540	1,460
City Manager	104,900	104,100	98,822	5,278
Elections	10,100	6,100	5,095	1,005
Assessor	21,950	24,000	24,762	(762)
City Clerk	186,150	186,150	180,345	5,805
Treasurer	130,000	128,100	130,915	(2,815)
General administration	254,450	244,450	222,426	22,024
Planning	16,400	10,400	9,662	738
	<u>741,950</u>	<u>719,300</u>	<u>686,567</u>	<u>32,733</u>
Less: Reimbursement from other funds	<u>(291,000)</u>	<u>(291,000)</u>	<u>(291,000)</u>	<u>-</u>
Total General Government	<u>450,950</u>	<u>428,300</u>	<u>395,567</u>	<u>32,733</u>
Public Safety -				
Police department	627,900	640,000	665,491	(25,491)
Fire department	104,400	93,650	98,194	(4,544)
	<u>732,300</u>	<u>733,650</u>	<u>763,685</u>	<u>(30,035)</u>
Public Works -				
Director of public works	76,600	71,400	72,047	(647)
Department of public works	380,900	372,900	354,993	17,907
	<u>457,500</u>	<u>444,300</u>	<u>427,040</u>	<u>17,260</u>
Recreational and Cultural-				
Parks and recreation	74,300	81,800	91,062	(9,262)
Debt Service				
Principal	25,500	25,500	25,489	11
Interest	19,050	19,050	19,024	26
	<u>44,550</u>	<u>44,550</u>	<u>44,513</u>	<u>37</u>
Total Expenditures	<u>1,759,600</u>	<u>1,732,600</u>	<u>1,721,867</u>	<u>10,733</u>
Excess of revenues under expenditures	<u>37,200</u>	<u>37,200</u>	<u>37,876</u>	<u>676</u>

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses):				
Transfers In				
DUS Centennial Commission	\$ -	\$ -	\$ 334	\$ 334
Transfer Out-				
Building Inspection	-	-	(15,475)	(15,475)
Fire Hall Debt	<u>(37,200)</u>	<u>(37,200)</u>	<u>(37,141)</u>	<u>59</u>
Total	<u>(37,200)</u>	<u>(37,200)</u>	<u>(52,282)</u>	<u>(15,082)</u>
Excess of revenues and other sources under expenditures and other uses	-	-	(14,406)	(14,406)
Fund Balance at beginning of year	<u>487,021</u>	<u>487,021</u>	<u>487,021</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 487,021</u></u>	<u><u>\$ 487,021</u></u>	<u><u>\$ 472,615</u></u>	<u><u>\$ (14,406)</u></u>

Concluded

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Budget</u>		<u>Actual</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental -				
State	\$ 987,700	\$ 987,700	\$ 170,848	\$(816,852)
Interest	500	500	2,774	2,274
	<u>988,200</u>	<u>988,200</u>	<u>173,622</u>	<u>(814,578)</u>
Expenditures:				
Public Works -				
Administration	6,000	6,000	6,000	-
Maintenance	959,300	959,300	89,654	869,646
Winter Maintenance	38,900	38,900	20,857	18,043
	<u>1,004,200</u>	<u>1,004,200</u>	<u>116,511</u>	<u>887,689</u>
Excess of revenues over (under) expenditures	<u>(16,000)</u>	<u>(16,000)</u>	<u>57,111</u>	<u>73,111</u>
Other Financing Sources (Uses):				
Transfers in -				
Street Fund	64,000	64,000	-	(64,000)
Transfers out -				
Local Street Fund	<u>(48,000)</u>	<u>(48,000)</u>	<u>(48,000)</u>	<u>-</u>
Total	<u>16,000</u>	<u>16,000</u>	<u>(48,000)</u>	<u>(64,000)</u>
Excess of revenues and other sources over expenditures and other uses	-	-	9,111	9,111
Fund Balance at beginning of year	<u>87,124</u>	<u>87,124</u>	<u>87,124</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 87,124</u></u>	<u><u>\$ 87,124</u></u>	<u><u>\$ 96,235</u></u>	<u><u>\$ 9,111</u></u>

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL STREET FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental -				
State	\$ 71,800	\$ 71,800	\$ 77,074	\$ 5,274
Interest	-	-	2,102	2,102
	<u>71,800</u>	<u>71,800</u>	<u>79,176</u>	<u>7,376</u>
Expenditures:				
Public Works -				
Administration	6,000	6,000	6,000	-
Maintenance	94,700	94,700	56,425	38,275
Winter Maintenance	19,100	19,100	12,712	6,388
	<u>119,800</u>	<u>119,800</u>	<u>75,137</u>	<u>44,663</u>
Excess of revenues over (under) expenditures	(48,000)	(48,000)	4,039	52,039
Other Financing Sources:				
Transfers in -				
Major Street Fund	<u>48,000</u>	<u>48,000</u>	<u>48,000</u>	<u>-</u>
Excess of revenues and other sources over expenditures	-	-	52,039	52,039
Fund Balance at beginning of year	<u>42,672</u>	<u>42,672</u>	<u>42,672</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 42,672</u></u>	<u><u>\$ 42,672</u></u>	<u><u>\$ 94,711</u></u>	<u><u>\$ 52,039</u></u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF DURAND, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2007

	Special Revenue Funds				
	Street	Sidewalks & Curbs	Building Inspection	Ambulance	DUS Centennial Commission
ASSETS					
Cash and cash equivalents	\$ 170,706	\$ 20,198	\$ 213	\$ 95,000	\$ -
Receivables -					
Accounts and interest	105	-	-	-	-
Special Assessments Receivable	4,310	4,425	-	-	-
Total Assets	<u>\$ 175,121</u>	<u>\$ 24,623</u>	<u>\$ 213</u>	<u>\$ 95,000</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 175	\$ -	\$ -
Deferred revenue	2,154	4,425	-	-	-
Total Liabilities	<u>2,154</u>	<u>4,425</u>	<u>175</u>	<u>-</u>	<u>-</u>
Fund Balance:					
Reserved -					
Capital projects	-	-	-	-	-
Debt service	-	-	-	-	-
Unreserved -					
Designated					
Undesignated	172,967	20,198	38	95,000	-
Total Fund Balance	<u>172,967</u>	<u>20,198</u>	<u>38</u>	<u>95,000</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 175,121</u>	<u>\$ 24,623</u>	<u>\$ 213</u>	<u>\$ 95,000</u>	<u>\$ -</u>

Debt Service Funds				Capital Project Funds		Total
Fire Hall	2001 Wastewater Treatment Plant	2001 Water Bond	2007 Capital Bond	Industrial Complex	Depot Restoration	
\$ 3,253	\$ 33,434	\$ 79,109	\$ 186	\$ 51	\$ 2,146	\$ 404,296
-	58	240	-	-	-	403
-	-	-	-	-	-	8,735
<u>\$ 3,253</u>	<u>\$ 33,492</u>	<u>\$ 79,349</u>	<u>\$ 186</u>	<u>\$ 51</u>	<u>\$ 2,146</u>	<u>\$ 413,434</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 175
-	-	-	-	-	-	6,579
-	-	-	-	-	-	6,754
-	-	-	-	51	2,146	2,197
3,253	33,492	79,349	186	-	-	116,280
-	-	-	-	-	-	288,203
<u>3,253</u>	<u>33,492</u>	<u>79,349</u>	<u>186</u>	<u>51</u>	<u>2,146</u>	<u>406,680</u>
<u>\$ 3,253</u>	<u>\$ 33,492</u>	<u>\$ 79,349</u>	<u>\$ 186</u>	<u>\$ 51</u>	<u>\$ 2,146</u>	<u>\$ 413,434</u>

CITY OF DURAND, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue Funds				DUS
	Street	Sidewalks & Curbs	Building Inspection	Ambulance	Centennial Commission
Revenues:					
Taxes	\$ 62,330	\$ -	\$ -	\$ 47,500	\$ -
Licenses and permits	-	-	9,443	-	-
Interest	8,082	547	-	-	-
Special assessment	2,155	14,793	-	-	-
Other	-	-	-	-	85
Total Revenues	<u>72,567</u>	<u>15,340</u>	<u>9,443</u>	<u>47,500</u>	<u>85</u>
Expenditures:					
Current -					
Public Safety	-	-	24,915	-	-
Public Works	-	7,152	-	-	-
Park and Recreation	-	-	-	-	459
Capital Outlay	-	-	-	-	-
Debt Service					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>7,152</u>	<u>24,915</u>	<u>-</u>	<u>459</u>
Excess of revenues over (under) expenditures	<u>72,567</u>	<u>8,188</u>	<u>(15,472)</u>	<u>47,500</u>	<u>(374)</u>
Other Financing Sources (Uses):					
Transfers In	-	-	15,475	-	-
Transfers Out	-	-	-	-	(334)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>15,475</u>	<u>-</u>	<u>(334)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>72,567</u>	<u>8,188</u>	<u>3</u>	<u>47,500</u>	<u>(708)</u>
Fund Balances at beginning of year	100,400	12,010	35	-	708
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,500</u>	<u>-</u>
Fund Balances at beginning of year restated	<u>100,400</u>	<u>12,010</u>	<u>35</u>	<u>47,500</u>	<u>708</u>
Fund Balances at end of year	<u>\$ 172,967</u>	<u>\$ 20,198</u>	<u>\$ 38</u>	<u>\$ 95,000</u>	<u>\$ -</u>

Debt Service Funds				Capital Project Funds		Total
Fire Hall	2001 Wastewater Treatment Plant	2001 Water Bond	2007 Capital Bond	Industrial Complex	Depot Restoration	
\$ -	\$ 38,272	\$ 159,431	\$ -	\$ -	\$ -	\$ 307,533
-	-	-	-	-	-	9,443
-	1,600	4,411	186	-	-	14,826
-	-	-	-	-	-	16,948
-	-	-	-	-	-	85
-	39,872	163,842	186	-	-	348,835
-	-	-	-	-	-	24,915
-	-	-	-	-	-	7,152
-	-	-	-	-	-	459
-	-	-	-	-	6,480	6,480
30,000	25,000	70,000	-	-	-	125,000
7,141	15,975	96,750	-	-	-	119,866
37,141	40,975	166,750	-	-	6,480	283,872
(37,141)	(1,103)	(2,908)	186	-	(6,480)	64,963
37,141	-	-	-	-	-	52,616
-	-	-	-	-	-	(334)
37,141	-	-	-	-	-	52,282
-	(1,103)	(2,908)	186	-	(6,480)	117,245
3,253	34,595	82,257	-	51	8,626	241,935
-	-	-	-	-	-	47,500
3,253	34,595	82,257	-	51	8,626	289,435
\$ 3,253	\$ 33,492	\$ 79,349	\$ 186	\$ 51	\$ 2,146	\$ 406,680

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
STREET FUND				
Revenues:				
Taxes	\$ 64,900	\$ 64,900	\$ 62,330	\$ (2,570)
Special assessments	2,100	2,100	2,155	55
Interest	500	500	8,082	7,582
	67,500	67,500	72,567	5,067
Expenditures:				
Public Works - Maintenance	67,500	67,500	-	67,500
Excess of revenues over expenditures	-	-	72,567	72,567
Other Financing Uses:				
Transfers out - Street Project Fund	-	(100,000)	-	100,000
Excess of revenues over (under) expenditures and other uses	-	(100,000)	72,567	172,567
Fund Balance at beginning of year	100,400	100,400	100,400	-
Fund Balance at end of year	\$ 100,400	\$ 400	\$ 172,967	\$ 172,567

SIDEWALKS & CURBS FUND

Revenues:				
Interest	\$ 200	\$ 200	\$ 547	\$ 347
Special Assessments	<u>6,400</u>	<u>6,400</u>	<u>14,793</u>	<u>8,393</u>
	6,600	6,600	15,340	8,740
Expenditures:				
Public Works -				
Contracted Services	<u>16,300</u>	<u>16,300</u>	<u>7,152</u>	<u>9,148</u>
Excess of revenues over (under)				
expenditures	(9,700)	(9,700)	8,188	17,888
Fund Balance at beginning of year	<u>9,700</u>	<u>12,010</u>	<u>12,010</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ 2,310</u></u>	<u><u>\$ 20,198</u></u>	<u><u>\$ 17,888</u></u>

Continued

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
BUILDING INSPECTION FUND				
Revenues:				
Licenses and permits -				
Permits	\$ 23,700	\$ 25,000	\$ 9,443	\$(15,557)
Expenditures:				
Public Safety -				
Administration	6,000	6,000	6,000	-
Building inspection	<u>17,700</u>	<u>19,000</u>	<u>18,915</u>	<u>85</u>
	<u>23,700</u>	<u>25,000</u>	<u>24,915</u>	<u>85</u>
Excess of revenues under expenditures	-	-	(15,472)	(15,472)
Other Financing Sources :				
Transfers in -				
General Fund	<u>-</u>	<u>-</u>	<u>15,475</u>	<u>15,475</u>
Excess of revenues and other sources over expenditures	-	-	3	3
Fund Balance at beginning of year	<u>35</u>	<u>35</u>	<u>35</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 35</u></u>	<u><u>\$ 35</u></u>	<u><u>\$ 38</u></u>	<u><u>\$ 3</u></u>

AMBULANCE FUND

Revenues:				
Taxes	\$ -	\$ 47,500	\$ 47,500	\$ -
Expenditures:				
Public Safety -				
Contracted services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	<u>-</u>	<u>47,500</u>	<u>47,500</u>	<u>-</u>
Fund Balance at beginning of year	-	-	-	-
Prior period adjustments	<u>-</u>	<u>47,500</u>	<u>47,500</u>	<u>-</u>
Fund Balance at beginning of year restated	<u>-</u>	<u>47,500</u>	<u>47,500</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ 95,000</u></u>	<u><u>\$ 95,000</u></u>	<u><u>\$ -</u></u>

Continued

CITY OF DURAND, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
DUS CENTENNIAL COMMISSION				
Revenues:				
Other				
Centennial Events and Sales	\$ -	\$ 83	\$ 83	\$ -
Calendar Sales	<u>-</u>	<u>2</u>	<u>2</u>	<u>-</u>
	<u>-</u>	<u>85</u>	<u>85</u>	<u>-</u>
Expenditures:				
Park and Recreation -				
Contracted services				
	<u>-</u>	<u>459</u>	<u>459</u>	<u>-</u>
Excess of revenues under				
expenditures	-	(374)	(374)	-
Other Financing Uses:				
Transfers out -	<u>-</u>	<u>(334)</u>	<u>(334)</u>	<u>-</u>
Excess of revenues over (under)				
expenditures	-	(708)	(708)	-
Fund Balance at beginning of year	<u>708</u>	<u>708</u>	<u>708</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 708</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Concluded

CITY OF DURAND, MICHIGAN

AGENCY FUNDS STATEMENT OF CHANGES IN ASSETS AND LIABILITIES FOR THE YEAR ENDED JUNE 30, 2007

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
TAX COLLECTION FUND				
Assets:				
Cash	\$ 70,179	\$ 1,011,223	\$ 1,081,402	\$ -
Liabilities:				
Due to other governmental units	\$ 69,248	\$ 935,549	\$ 1,004,797	\$ -
Due to other funds	-	155,144	155,144	-
Undistributed taxes	931	3,385	4,316	-
	<u>\$ 70,179</u>	<u>\$ 1,094,078</u>	<u>\$ 1,164,257</u>	<u>\$ -</u>

COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY

CITY OF DURAND, MICHIGAN

BALANCE SHEET/STATEMENT OF NET ASSETS DOWNTOWN DEVELOPMENT AUTHORITY JUNE 30, 2007

ASSETS	Governmental Activities	GASB 34 Adjustments	Statement of Net Assets
Cash and cash equivalents	\$ 86,687	\$ -	\$ 86,687
Accounts receivable	150	-	150
Capital Assets (net of accumulated depreciation)			
Assets not being depreciated	-	57,000	57,000
Assets being depreciated	-	158,880	158,880
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 86,837</u>	<u>\$ 215,880</u>	<u>\$ 302,717</u>
 LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 1,103	\$ -	\$ 1,103
Accrued interest	-	416	416
Due to other governmental units -			
State	27,453	-	27,453
Non-current liabilities			
Due within one year	-	25,000	25,000
Due in more than one year	-	25,000	25,000
Total Liabilities	<u>28,556</u>	<u>50,416</u>	<u>78,972</u>
Fund Balance:			
Reserved/Restricted -			
Friday night live	14,758	(14,758)	-
Facade	22,021	(22,021)	-
Unreserved/Unrestricted	<u>21,502</u>	<u>(21,502)</u>	-
	<u>58,281</u>	<u>(58,281)</u>	
Total Liabilities and Fund Balance	<u>\$ 86,837</u>		
Net Assets:			
Investment in capital assets, net			
of related liabilities		165,880	165,880
Restricted		36,779	36,779
Unrestricted		<u>21,086</u>	<u>21,086</u>
		<u> </u>	<u> </u>
Total Net Assets		<u>\$ 165,464</u>	<u>\$ 223,745</u>

CITY OF DURAND, MICHIGAN

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY
JUNE 30, 2007**

Fund Balances - total governmental funds	\$	58,281
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Amounts reported for Component Unit activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Capital assets		309,000
Accumulated depreciation	(93,120)

Long - term liabilities, including installments payable, are not due and payable
in the current period and therefore are not reported in the funds.

Loan installments payable	(50,000)
Increase in accrued interest	(416)

Net Assets of Downtown Development Authority activities	\$	<u>223,745</u>
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CITY OF DURAND, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/ STATEMENT OF ACTIVITIES DOWNTOWN DEVELOPMENT AUTHORITY FOR THE YEARS ENDED JUNE 30, 2007

	Actual	GASB 34 Adjustments	Total
Revenues:			
Taxes	\$ 62,763	\$ -	\$ 62,763
Interest	5,419	-	5,419
Other	10,350	-	10,350
	<u>78,532</u>	<u>-</u>	<u>78,532</u>
Expenditures/Expenses:			
Current -			
Public Works	98,745	(49,240)	49,505
Debt Service-			
Principal	25,000	(25,000)	-
Interest and fiscal charges	4,075	(263)	3,812
	<u>127,820</u>	<u>(74,503)</u>	<u>53,317</u>
Excess of revenues over (under) expenditures	(49,288)	74,503	25,215
Fund Balance/Net Asset at beginning of year	<u>107,569</u>	<u>90,961</u>	<u>198,530</u>
Fund Balance/Net Asset at end of year	<u>\$ 58,281</u>	<u>\$ 165,464</u>	<u>\$ 223,745</u>

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY JUNE 30, 2007

Net change in fund balances - governmental funds	\$(49,288)
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	57,000
Depreciation expense	(7,760)
Repayment of the principal of long-term debt consumes the current financial resources of the component fund, however has no effect on net assets	
Principal payment on long term liability	25,000
Decrease in accrued interest	<u>263</u>
Change in net assets of Downtown Development Authority activities	<u>\$ 25,215</u>

CITY OF DURAND, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL DOWNTOWN DEVELOPMENT AUTHORITY FOR THE YEARS ENDED JUNE 30, 2007

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 84,400	\$ 84,400	\$ 62,763	\$(21,637)
Interest	2,000	2,000	5,419	3,419
Other	-	-	10,350	10,350
	<u>86,400</u>	<u>86,400</u>	<u>78,532</u>	<u>(7,868)</u>
Expenditures:				
Current -				
Public Works	131,500	131,500	98,745	32,755
Debt Service-				
Principal	25,000	25,000	25,000	-
Interest and fiscal charges	4,100	4,100	4,075	25
	<u>160,600</u>	<u>160,600</u>	<u>127,820</u>	<u>32,780</u>
Excess of revenues over (under) expenditures	(74,200)	(74,200)	(49,288)	24,912
Fund Balance at beginning of year	<u>107,569</u>	<u>107,569</u>	<u>107,569</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 33,369</u>	<u>\$ 33,369</u>	<u>\$ 58,281</u>	<u>\$ 24,912</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the Honorable Mayor and
Members of the City Council
City of Durand, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Durand as of and for the year ended June 30, 2007, which collectively comprise the City of Durand's basic financial statements and have issued our report thereon dated November 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Durand's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Durand's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the City of Durand's internal control. We considered the deficiencies described below to be significant deficiencies in internal control over financial reporting.

The payroll bank should be reconciled to the General Ledger on a monthly basis.

During the past couple of years, the payroll account has not reconciled to the City general ledgers. Although the City's staff has attempted to reconcile the account there are differences each month, this year the difference between the reconciliation and the accounting records was approximately \$14,000. As of June 30, 2006, the difference was approximately \$12,000. We recommend that the City personnel investigate why there are differences each month and make necessary adjustments.

There is lack of segregation of duties for certain bank accounts.

During the audit, we noted that certain money accounts are maintained, reconciled, and have transfers made by the same individual. Also, the individual is responsible for maintaining the general ledger. To increase controls, we suggest that duties be segregated so that no one individual has total control over any account or have someone periodically review the bank statement and monthly activity.

Preparation of the “external” Financial Statements In Accordance with Generally Accepted Accounting Principles.

New accounting standards require that the entity have the expertise and technical ability to prepare the entity’s financial statements, including all the notes and GASB No. 34 financial statements, in accordance with generally accepted accounting principles. The city’s finance department routinely prepares “internal” financial reports for management and the City Council to assess the operations and financial conditions of the City throughout the year.

At the end of each year, the accounting department makes various year end adjustments to the “internal” financial statements and provides these reports to us, the auditors, to audit and prepare the City’s “external” financial statements. The “external” financial statements must include not only the number section of the financial report but also very extensive and detailed “notes to the financial statements.”

Although we believe that the City’s accounting staff has the expertise and technical ability to prepare the basic number section of the financial statements, they require our assistance in preparing the notes to the financial statement and for certain technical assistance in preparing generally accepted accounting principle financial statements. We do not recommend any changes to this situation at this time, however, are reporting it as required under professional standards.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Durand’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Durand in a separate letter dated November 27, 2007.

This report is intended solely for the information and use of management, the members of the city council, and others within the City of Durand, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvais & Whipple".

November 27, 2007

MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council
City of Durand, Michigan

As you know, we have recently completed our audit of the basic financial statements of the City of Durand, Michigan as of and for the year ended June 30, 2007. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the City's recordkeeping system. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, dated November 27, 2007, the conditions described below are not considered reportable conditions or material weaknesses.

The City should investigate utilizing positive pay.

Financial institutions are offering the service called "positive pay" whereby the checks issued by the City are uploaded to the bank and then the bank compares the check information, including payee, amount, etc., to the data received directly from the City. This increases the controls since any unauthorized modification or fraudulent checks are immediately discovered. Usually the cost of this service is minimal.

The City should review and document the administration charges between the various funds.

The City currently charges an administration fee from the general fund to various other funds of the City for services provided by the general fund. This is a very common and acceptable practice. However, it is our understanding that the method of determining the charges has not been reviewed and updated in a number of years.

We recommend that these charges be reviewed and documentations maintained on why, and the amount that is being charged.

The City should establish procedures to ensure that they comply with the City's investment policy and/or amended the investment policy.

Although the City complies with Michigan Compiled Laws, the City's investment policy requires that certain information be obtained and collateralization be obtained for all certificates of deposit. During the audit, we noted that the City had not obtained collateralization for certification of deposit, annual information from financial institutions, and quarterly reporting to the City Council. We recommend and the Michigan Department of Treasury requires that the City establish procedures to ensure that they comply with the City's investment policy.

The salaries and wages reported on the general ledger and the wages reported in the payroll systems should be reconciled on a quarterly basis.

At the current time, the quarterly IRS 941 reports are not reconciled to the wages on the City's general ledger. We recommend quarterly reconciliations be performed comparing wages per the City's general ledger to wages reported on the Federal 941 forms.

This report is intended solely for the information and use of management, the City of Council, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvais & Whipple".

November 27, 2007